STATE BOARD OF EQUALIZATION
STAFF LEGISLATIVE BILL ANALYSIS

Date Introduced	**02/09/01**	Bill No:	**AB 206**
Tax:	**Property**	Author:	**Wyland**
Board Position:	**Support**	Related Bills:	

BILL SUMMARY

This bill would increase from $5,000 to $10,000 the maximum value of property that a county board of supervisors may exempt from property tax under a "low-value ordinance" and would annually adjust that limit by an inflation factor based on the California Consumer Price Index.

ANALYSIS

Current Law

Section 1(a) of Article XIII of the California Constitution provides that all property is taxable unless otherwise provided by that constitution or the laws of the United States.

Section 7 of Article XIII provides that the Legislature, two-thirds of the membership of each house concurring, may authorize a county board of supervisors to exempt real property having a full value so low that, if not exempt, the total taxes and applicable subventions on the property would amount to less than the cost of assessing and collecting them.

The Legislature enacted Revenue and Taxation Code Section 155.20 to provide the necessary statutory implementation. It authorizes a county board of supervisors to exempt from property tax real property with a base year value and personal property with a full value so low that, if not exempt, "the total taxes, special assessments, and applicable subventions on the property would amount to less than the cost of assessing and collecting them." The exemption permitted under this section of law is commonly referred to as the "low-value ordinance" exemption.

The amount of the low-value ordinance exemption may not exceed $5,000 except that the limit is increased to $50,000 in the case of a possessory interest, for a temporary and transitory use, in a publicly owned fairground, fairground facility, convention facility, or cultural facility.

In determining the level of the exemption, Section 155.20(b)(2) states that the board of supervisors shall:

> ". . . determine at what level of exemption the costs of assessing the property and collecting taxes, assessments, and subventions on the property exceeds the proceeds to be collected. The board of supervisors shall establish the exemption level uniformly for different classes of property. In making this

determination, the board of supervisors may consider the total taxes, special assessments, and applicable subventions for the year of assessment only or for the year of assessment and succeeding years where cumulative revenues will not exceed the cost of assessments and collections."

Proposed Law

This bill would amend Revenue and Taxation Code Section 155.20 to increase from $5,000 to $10,000 the maximum exemption amount that a board of supervisors could authorize. In addition, it would provide that the maximum amount would thereafter be annually adjusted by an inflation factor that is the percentage change, rounded to the nearest one-thousandth of 1 percent, from October of the prior fiscal year to October of the current fiscal year, in the California Consumer Price Index for all items, as determined by the California Department of Industrial Relations. It would also require the Department of Industrial Relations to provide this inflation factor to each county assessor prior to January 1 of each year.

In General

In addition to the low-value ordinance exemption, there are other provisions of law related to property tax amounts that are not cost effective to pursue.

- Revenue and Taxation Code Section 75.55 provides that the county board of supervisors may, by ordinance, permit the county (presumably this means the county auditor or tax collector) to cancel supplemental tax bills, which are less than $20 and less than $50 for mobilehome accessories. Alternatively, the board may adopt an ordinance allowing the *assessor* to cancel the supplemental assessments in the first place.

- Revenue and Taxation Code Section 4986.8 allows the county auditor, upon the tax collector's recommendation, to cancel any tax bill, if the amount is so small as not to justify the cost of collection.

- Revenue and Taxation Code Section 2611.4 provides that "any county department, officer, or employee may refrain from collecting any tax, assessment, penalty or cost" when the amount to be collected is less than $20.

Background

The authorization for the low-value ordinance exemption was established by a constitutional amendment, Proposition 8, in November 1974. Proposition 8 also revised various articles of the State Constitution relating to taxation generally, as recommended by the Constitution Revision Commission. According to documents related to the legislation that added Section 155.20 to the Revenue and Taxation Code to implement this constitutional amendment, many county assessors had decided not to assess such properties as undeveloped mining rights where the values of the properties were too small. The constitutional amendment, therefore, was intended to provide some legal authority for the actual assessment practice.

The maximum value of property that may be exempted under a low-value ordinance has been periodically increased as noted in the following table. The most recent increase, which was sponsored by the Board of Equalization, was in 1995.

MAXIMUM AMOUNT	YEAR	BILL
$ 400	1975	AB 728 (Ch. 106, Stats. 1975)
$1,500	1980	SB 1414 (Ch. 1098, Stats. 1980)
$2,000	1984	AB 511 (Ch. 1040, Stats. 1984)
$5,000	1995	SB 722 (Ch. 497, Stats. 1995)

Legislation has also amended Section 155.20 to permit higher exemption amounts for specific types of property as noted in the following table. In addition, it has been amended to permit low-value ordinances to apply to personal property. While the constitutional amendment only referred to real property, the constitution previously authorized the Legislature to provide for the exemption of personal property.

SPECIAL CATEGORIES	YEAR	SPECIAL AMOUNT	GENERAL AMOUNT	BILL
Personal Property Included	1980	$ 1,500	$1,500	SB 1414 (Ch. 1098, Stats. 1980)
Mobilehome Accessories	1991	$ 5,000	$2,000	SB 367 (Ch. 441, Stats. 1991)
Possessory Interests - Convention and Cultural Centers	1996	$50,000	$5,000	SB 1737 (Ch. 570, Stats. 1996)
Possessory Interests- Fairgrounds	1997	$50,000	$5,000	SB 722 (Ch. 106, Stats. 1997)

COMMENTS

1. **Sponsor and Purpose.** This bill is sponsored by San Diego County for the purpose of obtaining the authority to increase its low-value ordinance exemption for personal property from $5,000 to $10,000.

2. **County participation optional.** The increase in the exemption amount authorized by this measure would only take effect if a county board of supervisors subsequently amended its ordinance to increase the exemption level above its current amount.

This staff analysis is provided to address various administrative, cost, revenue and policy issues; it is not to be construed to reflect or suggest the Board's formal position.

3. **Only five counties currently have low-value ordinances at the maximum $5,000 level.** Those counties are Nevada, San Diego, San Mateo, Santa Clara and Solano.

4. **Sixteen counties do not currently have low-value ordinances.** Those counties are Alameda, Alpine, Amador, Contra Costa, Imperial, Inyo, Lake, Marin, Mariposa, Modoc, Monterey, San Francisco, San Luis Opisbo, Santa Barbara, Sierra and Tuolumne. However, some of these counties do not pursue the assessment of certain low-value properties, even though, absent a low-value ordinance, there is no legal authority for doing so.

5. **Counties determine their maximum exemption amount.** Counties are charged with setting the appropriate level of the exemption. The manner of preparing the cost-benefit analysis in each county may vary. Where the analysis is identical, the actual break-even point will still likely vary because of the uniqueness of costs in each particular county. In addition, the philosophies of the elected officials towards the low-value exemption, as well as its level, may affect whether an ordinance is adopted.

6. **What types of property could qualify?** Real property that could have a value less than $10,000 includes mining or mineral rights, possessory interests, timeshare estates in timeshare projects, and leased tenant improvements. Personal property that could have a value under $10,000 includes personal property used in a trade, profession or business, and boats, planes, and mobilehomes.

7. **State-County Property Tax Administration Loan Program.** In some contracts between the Department of Finance and counties, one element in approving the loan was a restriction against increasing the county's low-value exemption threshold.

8. **This bill would not subject a county's existing exemption level to annual inflation factoring.** With respect to the annual inflation adjustment, this bill would annually increase the maximum threshold permitted, not the counties' actual level in effect. It is possible that counties could draft their ordinances in a way to automatically incorporate inflation adjustments, so that an annual action by the boards of supervisors would not be necessary, if that was their desire.

9. **Compounding inflation factor.** As currently drafted, the $10,000 limit is not compounded annually by the inflation factor. Thus, the maximum limit could fluctuate up and down from year to year with $10,000 as the base figure of comparison for every year. Without annual compounding, in one year the maximum limit could be $10,500 and the next it could drop to $10,250. The following suggested amendment would ensure that the $10,000 limit is *annually* compounded by the CCPI inflation factor. In this way, the maximum limit will increase from the prior year.

   Section 155.20 (b)(3) On each lien date, the ten thousand dollars ($10,000) limitation specified in paragraph (1) shall be <u>compounded annually</u> ~~adjusted~~ by an inflation factor that is the percentage change, rounded to the nearest one-thousandth of 1 percent, from October of the prior fiscal year to October of the current fiscal year in the California Consumer Price Index for all items, as determined by the California Department of Industrial Relations. The department shall annually provide this inflation factor to each county assessor prior to the lien date.

10. **It may be preferable and less costly for the Board of Equalization to annually provide county assessors with the inflation factor rather than the California Department of Industrial Relations.** The Board currently sends, via its "Letters to Assessors," similar information on changes in the California Consumer Price Index for the October-to-October period, for purposes of annual inflation adjustments under Proposition 13. The Board could additionally include the current maximum level permitted for purposes of the low-value ordinance exemption.

COST ESTIMATE

With respect to property taxes, the Board would incur some minor absorbable costs in informing local county assessors, the public, and staff of the law changes.

REVENUE ESTIMATE

Currently 42 counties have adopted a low-value ordinance exemption. The maximum limits in these counties range from $500 to $5,000; five counties have adopted the maximum $5,000 limit. A few of these counties do not prepare a tax bill for the property if the taxes are less than $5 - $20; 31 of the counties exempt low-value properties by assigning them a taxable value of zero.

Under this measure, the $5,000 maximum would be raised to $10,000 plus an annual inflation adjustment in succeeding years. A county could then increase its low-value exemption limit to $10,000 (plus the annual inflation adjustment in succeeding years) if the costs of billing and assessing this type of property exceeded $10,000 X 1% or $100. In such cases, there would be a small cost savings equal to the difference between the costs of assessing and billing, and the tax proceeds for such properties.

Revenue Summary

We cannot identify any clear revenue effect from increasing the low-value ordinance exemption from $5,000 to $10,000, in part, because, other than San Diego County, it is difficult to determine which counties might raise their current limit over $5,000. For any county that would opt to raise the limit above $5,000, there would be a small cost savings equal to the difference between the costs of assessing and billing, and the tax proceeds for properties that would qualify for the low-value ordinance exemption under the increased limit.

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